Supreme Court, U.S.
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No. 87-38

IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

GRANADA ELECTRONICS, INC.,

Petitioner,

vs.

ORIGINAL APPALACHIAN ARTWORKS, INC.,
a Corporation of the State of Georgia,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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QUESTIONS PRESENTED

1. Whether there can be any "confusion," as defined in the Lanham Act, as to the source of products, when the products have been manufactured under license from the trademark owner in strict compliance with its specifications?

2. Whether the function of a trademark is to identify the "source, origin or sponsorship" of the goods marked or to ensure that the goods are of any particular quality?

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No. _____

IN THE

SUPREME COURT OF THE UNITED STATES

GRANADA ELECTRONICS, INC.,

Petitioner,

v.

ORIGINAL APPALACHIAN ARTWORKS, INC.,
A Corporation of the State of Georgia,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Granada Electronics, Inc. respectfully prays that a writ of certiorari issue to review the order and opinion of the United States Court of Appeals for the Second Circuit entered in this proceeding on April 7, 1987.

That opinion affirmed a judgment in favor of respondent after a non-jury trial in this trademark action upon a finding of trademark infringement by petitioner.

OPINIONS BELOW

The opinion of the Court of Appeals from which this appeal is taken appears in the Appendix to this petition at A1. The opinion rendered by the District Court for the Southern District of New York (William C. Conner, United States District Judge) appears at A40.

JURISDICTION

The judgment and opinion of the Court of Appeals was entered on April _, 1986. The jurisdiction of this Court is invoked under 28 U.S.C. section 1254(1).

STATUTES INVOLVED

Section 32 of the Lanham Act, 15 U.S.C. §1114(1) provides as follows:

> "Any person who shall, without the consent of the registrant
>
> (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or
>
> (b) reproduce, counterfeit, copy or colorably imitate a registered mark and apply such reproduction, counterfeit, copy or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be

used in commerce upon or in connection with the sale, offering for sale, distribution or advertising of goods or services on or in connection with which such use is likely to cause confusion or to cause mistake or to deceive shall be liable in a civil action by the registrant for the remedies hereinafter provided."

The Tariff Act of 1930, 19 U.S.C. 1526 provides in pertinent part:

"...it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of Sections 81-109 of Title 15 and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in Section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry."

STATEMENT OF THE CASE

This action arose from petitioner's importation and distribution in the United States of Cabbage Patch Kids ("CPK") dolls manufactured in Spain by Jesmar, S.A. ("Jesmar") under license by respondent, Original Appalachian Artworks, Inc. ("OAA") the world-wide registered owner of the CPK trademark.

Petitioner Granada Electronics, Inc. ("Granada") is an importer and trader of consumer merchandise which it buys and sells at wholesale. It has been in this business for more than 25 years, trading frequently in overseas markets.

OAA itself engages in the manufacture and sale of hand-sewn, soft-

sculpture dolls under its CPK trademark. These dolls play no part in this case. This case concerns OAA's licensing activities world-wide in the production and sale of vinyl CPK dolls by licensees.

OAA engaged Schlaifer-Nance ("Schlaifer") as its world-wide licensing agent for the purpose of licensing others to produce and sell the vinyl version of the dolls. The vinyl dolls produced by the licensees world-wide are in all instances identical. It appears that in all instances the licensor requires that the licensee package the licensed product in boxes with printed material on the exterior thereof in the native language of the licensee's place of business. Additionally, all dolls sold world-wide under license are sold with "birth certificates" and "adoption papers", and it appears that

the licensee in each instance is required to have this material printed in the language predominantly spoken in the country where the licensee does business. In the United States the licensee for the production and sale of the vinyl dolls is Coleco. The record identifies licensees in France, Germany, Sweden; there are others. Some of these other licensees produce and sell vinyl dolls in countries where the native language is English.

On April 13, 1984, Schlaifer licensed Jesmar to manufacture and distribute the vinyl doll in Spain, the Canary Islands, Andorra and Ceuta Melilla. Like other foreign licensees, Jesmar agreed not to sell or authorize any sale of the licensed products outside its licensed territory except with the permission of Schlaifer. Either in

anticipation of likelihood that there would be many instances of permitted sales beyond the licensed territory as provided in the contract, or because OAA's world-wide licensing scheme is hopelessly confused, OAA caused its trademark to be recorded with the United States Customs Service and listed Jesmar as a producer whose CPK dolls could "pass through" United States Customs. On all panels of the box except for the bottom, OAA's United States trademark is printed in conformity with the provisions of 15 U.S.C. § 1111, indicating that OAA anticipated the sale of these dolls in the United States. There is nothing in the record below which would indicate that the sale by Jesmar for distribution of the dolls in question outside of Spain was other than entirely in accordance with permission as provided in the contract between Schlaifer

and Jesmar. However, the CPK dolls manufactured by Jesmar were produced with packaging on all panels printed in the Spanish language (except for the designation "Cabbage Patch Kids" and the trademark notice provided for by 15 U.S.C. §1111). In addition, the Jesmar dolls contained birth certificates and adoption papers printed completely in Spanish. The mailing address to which the adoption papers are to be sent is in Spain. It is undisputed that the Jesmar dolls and packaging, as well as the package inserts, were all expressly approved by OAA for production and sale.

In or about mid-1985, petitioner attempted to purchase CPK Coleco dolls in the United States, but found them unavailable at any price and from any source, including Coleco itself. In or about the summer of 1985, petitioner

was offered CPK vinyl dolls by the Sherwood Agency ("Sherwood"), a United Kingdom merchant that regularly supplied petitioner with various classes of imported merchandise. Before placing its order with Sherwood, Petitioner, in good faith, contacted its customs broker and inquired as to the propriety of importing CPK vinyl dolls produced by Jesmar. It was only after petitioner had been informed that, as a matter of public (Customs Service) record, OAA had consented to the importation of CPK dolls manufactured by Jesmar and had been assured of the genuineness of the product as well as its trademark by an overseas supplier of long standing, in which petitioner had come to repose its confidence, that it placed an order for CPK Jesmar dolls with Sherwood. It is undisputed that, for a considerable period before petitioner placed its

order with Sherwood, vinyl CPK dolls with foreign language "papers" in many different languages were offered for sale by such well-known retailers as J.C. Penney, Hess, Jordan Marsh, Toys-R-Us and Macy's. Indeed, the importation and sale of vinyl CPK dolls with foreign language papers was so pervasive that on December 26, 1984, approximately one year prior to the commencement of the instant action, Schlaifer addressed a letter forwarded by international courier to at least 10 foreign licensees suspected of transshipping vinyl CPK dolls, threatening the institution of suit for selling outside its "licensed territory" in violation of its respective contract.

It should be noted that, as manifested in the record below, OAA never established that petitioner had

prior knowledge that the dolls being imported from Spain contained material printed in Spanish on the packaging and included Spanish language papers. Moreover, the record is devoid of any indication that petitioner knew or had reason to know that OAA would object to the sale of dolls bearing its trademark (for which it presumably earned royalties) in whatever language was employed for the printed material. Thus, since respondent failed to terminate any license for transshipping the dolls or require labelling on the packaging that would indicate that the goods were intended for a specific territory, and expressly authorized the Customs Service to permit entry of the goods, respondent encouraged the transshipment of vinyl CPK dolls by its foreign licensees for importation and sale in the United States, especially by

requiring foreign licensees to include the material called for by 15 U.S.C. §1111.

REASONS FOR GRANTING THE WRIT

This case involves the question whether goods produced under license granted by the sole owner of a world-wide trademark can be considered less than genuine for purposes of trademark law because they differ from goods produced under license from the same licensor by a different producer. The question is one of great practical importance not only to all United States merchants trading in overseas markets but also to the Customs Service, which must administer the laws governing the

importation of trademarked goods.[1]

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1. Viewed from a different perspective, indeed one advanced by respondent below, the subject goods can be legitimately characterized as "gray goods," i.e., goods produced and sold abroad under a particular trademark which are imported into the United States and sold in competition with goods of the owner of United States trademark rights in the identical mark. At present, there exists a conflict between three Circuit Courts as to whether gray goods cases, particularly those challenging the Customs Service's decision not to exclude trademarked merchandise, must in all cases be initiated, after exhausting the appropriate administrative remedies, in the Court of International Trade. See Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985), cert. denied, ___ U.S. ___, 106 S.Ct. 791, 88 L.Ed. 2d 769 (1986) (holding that, pursuant to 28 U.S.C. §1581(i)(4), the Court of International Trade has exclusive jurisdiction) and Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986), petition for cert. filed, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757) and Coalition to Preserve the Integrity

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of American Trademarks v. United States, 790 F.2d 903 (D.C. Cir. 1986), cert. granted, 55 U.S.L.W. 3411 (U.S. Dec. 8, 1986) Nos. 86-495, 86-624, 86-625) (both holding that the Court of International Trade does not have exclusive jurisdiction). It is significant that the policy considerations implicit in the Customs Courts Act of 1980 support the holding of Vivitar since it "expanded and clarified the jurisdiction of [the Court of International Trade] to create 'a comprehensive system for judicial review of civil actions arising out of import transactions and Federal statutes affecting international trade.'" United States v. Mizrahie, 606 F.Supp. 703, 706 (Ct. Int'l Trade 1985) (quoting statement of President Carter, 16 Weekly Comp. of Pres. Doc. 2183 [Oct. 11, 1980]. While in the instant case there was no challenge, prior to the commencement of suit, of Customs's decision to permit the entry of what respondent characterizes as goods which "confuse the public," respondent was, arguably, acting in bad faith in commencing a trademark action. Knowing the Vivitar rule that Customs is not required to provide for automatic exclusion of goods except as set forth in its regulations, respondent commenced this suit with the intention of instituting a proceeding before the

Specifically, the Second Circuit has held in this case that goods produced under license granted by the holder of the trademark are not genuine because consumers may be disappointed with the product.

In so ruling, the Second Circuit has redefined the meaning of "confusion" under sections 32 and 43 of the Lanham Act, 15 U.S.C. §§ 1114(1) and

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United States International Trade Commission seeking a directive requiring Customs to exclude the subject dolls. This intention is manifested by the fact that, sometime subsequent to the commencement of this action, Respondent brought such a proceeding, I.T.C. Case #337-TA-231, without advising Petitioner of its initiation or pendency.

1125(a), respectively, replacing the objective test of "source, origin and sponsorship" with a subjective one of consumer satisfaction. The Second Circuit's interpretation is unwarranted by statute or prior case law and conflicts with the Ninth Circuit's decision in NEC v. CAL Circuit Abco, 810 F.2d 1506 (9th Cir. 1987), which holds that a wholly owned subsidiary of the sole owner world-wide of a trademark has no cause of action for trademark infringement under of the Lanham Act against a third party who imported the parent's genuine trademarked goods from Japan and sold them in the United States.

The Second Circuit's interpretation of the phrase "likely to cause confusion..." contained in section 32 of the Lanham Act, 15 U.S.C. §1114 (1), has

major commercial significance. American consumers spend millions of dollars on foreign-manufactured prod-ucts licensed under United States trademarks, including cameras, electronic equipment and toys, that are available at discount prices as a result of importation. Domestic wholesalers, such as Petitioner, relying on the genuineness of goods produced pursuant to a United States registered trademark, have established extensive business enterprises based on the importation of these goods.

For over 100 years, businesses have been relying on the legitimacy of registered trademarks to purchase authorized foreign-manufactured goods at costs below the artificially high prices fixed by trademark owners in the United States. The Second Circuit's decision, if upheld, will effect an anomalous

result, not intended by Congress in passing and amending the Lanham Act, that will seriously disrupt established commercial practice. Moreover, the conflict between the circuit courts will effectively permit importation of the subject dolls in California, where they would be considered genuine, while condemning their importation in New York, where they would not. In consideration of the wide range of commercial activities that will be affected by the Second Circuit's decision and the inevitable confusion it will cause, a resolution of the issues raised is a matter of importance to the business community and one that warrants this Court's review.

A. Since the Word "Source," Within the Meaning of the Trademark Law, Refers to the Trademark Owner, There Can Be No Confusion as to Source Where Goods Are Manufactured Under License in Accordance with the Trademark Owner's Specifications.

The function of a trademark is to identify the owner of the trademark as the source or sponsor of the goods marked and to identify the goods as the authentic product of the trademark owner. Slip opinion at 2285 (Cardamone, J., concurring in separate opinion). This concept is expressed well in Schroeder v. Lotito, 577 F.Supp. 708 (D.R.I. 1983), aff'd, 747 F.2d 801 (1st Cir. 1984) (per curiam), where the Court stated:

> The essence of [a trademark] offense is passing off on one's goods or services as being those of another [citing cases]. Thus is an action for trademark infringement in its purest form, the crucial question is whether a consumer

> would be likely to experience confusion with respect to the identity of goods or services because of the use of similar marks by opposing parties [citing cases].

Id. at 718. This function is consistent with the underlying significance of the mark, i.e., that its owner stakes his reputation on the goods.

In the instant case, the Second Circuit upholds the District Court's ruling that petitioner infringed OAA's trademark on the basis that, since the subject goods were not "authorized" for sale in the United States and contained Spanish language "adoption papers," they were "materially different" from the Coleco dolls and, therefore, actionable under section 32 as "likely to cause confusion." While the Second Circuit purports to hold that this material difference confuses con-

sumers as to the source of the subject goods, it is clear that the Court's use of the word "source" includes not only the trademark owner but Coleco, a licensee, as well, a holding clearly contrary to the Ninth Circuit's interpretation in NEC Electronics v. CAL Circuit Abco, 801 F.2d 1506 (9th Cir. 1987), and to the central purpose of the mark, which is to identify the "quality controller."

In support of its affirmance, the Court of Appeals relies on the statutory purpose of section 32, which it characterizes as intending to "prevent consumer confusion of similar goods." Slip op. at 2282. Petitioner submits that since section 32 seeks to prevent damage to a trademark owner's goodwill as a result of public confusion as to the sponsorship of a particular good, the Second Circuit's interpretation of

the language contained in section 32 not only conflicts with that of the Ninth Circuit but also brings a novel definition to the word "confusion" within the context of trademark law that is unwarranted by the statute and leads to an anomalous result.

As evidenced by its failure to cite or refer to the language of section 32 or its legislative history, the Second Circuit's characterization of the statutory purpose of section 32 is without support except for its prior decision in Syntex Laboratories, Inc. v. Norwich Pharmaceutical Co., 437 F.2d 566 (2d Cir. 1971). In Syntex, a Second Circuit panel ruled that where "product confusion" would have dire consequences on public health, looking to such confusion in addition to source or origin confusion was in accord with the pur-

poses of the Lanham Act.

In reaching this conclusion, the Syntex Court stated that in amending section 32 "Congress eliminated the ... qualifying language [of source or origin], thereby evincing a clear purpose to outlaw the use of trademarks which are likely to cause confusion ... not merely of purchasers nor simply as to source of origin." Id. at 568. While the legislative history of the amendment is not instructive, we contend that Syntex is an aberration which departs from prior case law decided after section 32 was amended and that, since Syntex involved two different trademarks, its conclusion that confusion was not limited to source of origin was not necessary to its holding and was, therefore, dicta.

Subsequent to the amendment of section 32, the Second Circuit in Franchised Stores of New York, Inc. v. Winter, 394 F.2d 664 (2d Cir. 1968), ruled that a cause of action for trademark infringement exists where "an individual uses a trademark (1) without consent, (2) in connection with the sale of goods, (3) where such use is likely to cause confusion or to deceive purchasers as to the source or origin of the goods." Id. at 668. See also Sasson Jeans, Inc. v. Sasson Jeans, L.A., Inc., 632 F.Supp. 1525 (S.D.N.Y. 1986). The "confusion test" was, in fact explained in an earlier Second Circuit opinion as requiring a plaintiff to establish that the "defendant's goods are likely to be thought to have originated with, or to have been sponsored by the true owner of the mark." Societe Comptoir De L'Industrie v. Alexander's Department

Store, Inc., 229 F.2d 33 (2d Cir. 1962). This interpretation was followed by the Second Circuit in Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd., 604 F.2d 200 (2d Cir. 1979), a case decided after Syntex, which held that the concept of confusion in trademark law refers to "the public's belief that the work's owner sponsored or otherwise approved the use of the trademark." Id. at 205. See also Mushroom Makers, Inc. v. R.G. Barry Corp., 580 F.2d 44 (2d Cir. 1978), cert. denied, 439 U.S. 1116, 99 S.Ct. 1022, 59 L.Ed. 75 (1979) (per curiam). The concept is clearly articulated in the well-reasoned opinion of Lasker, J., in Ballet Makers v. United States Shoe Corp., 633 F.Supp. 1928 (S.D.N.Y. 1986), where it was explained that confusion could only exist where the public believes that a product is sponsored by

a mark's owner when in fact it is not. Id. at 1334 (emphasis in original). The proposition that the language of section 32 is limited to the source, origin or sponsorship of the goods is also supported by the Ninth Circuit's decisions in NEC Electronics and Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp., 707 F.2d 1054 (9th Cir. 1983), which implicitly reject the Second Circuit's interpretation of Congress's purpose in amending the statute.

Nor is the Second Circuit's opinion justified by this Court's holding in A. Bourjois & Co., Inc. v. Katzel, 260 U.S. 689, 43 S.Ct. 244, 67 L.Ed. 464 (1923), the seminal case which stands for the proposition that a trademark infringement may occur in the sale

of genuine products.[2] In Katzel, the United States purchaser of the United States business, trademarks and goodwill of a French manufacturer of face powder

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2. Notwithstanding the Second Circuit's reliance on Katzel, the case most representative of the equities at issue in the case at bar is Prestonettes, Inc. v. Coty, 264 U.S. 359, 44 S.Ct. 350, 68 L.Ed. 731 (1924), universally cited for the proposition that a purchaser from a duly licensed distributor may ordinarily resell the product under the original trademark without incurring liability for infringement. See slip op. at 2289 (Cardamone, J., concurring in separate opinion); see also Alfred Dunhill, Ltd. v. Interstate Cigar Co. Inc., 499 F.2d 323 (2d Cir. 1974). Thus, it can reasonably be concluded that any confusion pertaining to source, origin or sponsorship would not exist where a "genuine article bearing a true mark is sold." NEC Electronics at 1059 (citing Prestonettes, supra, and Monte Carlo Shirt Inc. v. Daewoo International (AM.) Corp., 707 F.2d 1054 (9th Cir. 1983).

brought suit against a United States competitor that had purchased the same powder from the manufacturer and was selling it in the United States in boxes closely resembling plaintiff's own. This Court enjoined the competing sales over the defendant's objection that the trademark was that of the French manufacturer and, thus, truly reflected the origin of the goods.

The Katzel decision, however, was motivated by considerations not present in the case at bar. First, the Court in Katzel was concerned that if it permitted the defendant distributor to market its goods under the French trademark it would effectively permit the manufacturer, which had sold its United States trademarks, business and goodwill, to evade the consequences of that sale and compete with the buyer by the

simple expedient of reaching an agreement with an intermediary. Second, the United States owner had no corporate connection with the French manufacturer and had no other means of controlling the quality of its product, see, El Greco Leather Products, Inc. v. Shoe World, 806 F.2d 392 (2d Cir. 1986) and cases cited above for the proposition that the trademark holder is entitled to control the quality of the goods that bear his mark. Unless the injunction issued, the holder of the United States trademark would have been forever vulnerable to any decline in the quality of the French product and would not even have been able to protect itself by revoking a license because it had not licensed the French manufacturer in the first place. In the case at bar, Respondent not only licensed Jesmar and presumably retains the power to revoke

its license if dissatisfied with the quality of Jesmar's dolls but also has never impugned the quality of Jesmar's dolls.

By its holding, the Second Circuit has transformed the "confusion test" from one pertaining to the sponsorship of goods into one concerned with the quality of goods. This is clearly not consistent with the purpose of the Lanham Act.

B. The Function of a Trademark Is to Identify the Trademark Owner as The Origin, Source or Sponsor of the Goods, Not to Guarantee That They Are of High Quality or to Invite Speculation as to Whether They Are Fit to Bear the Mark.

Patently, the owner of a trademark may license whomever he pleases to use his mark, subject only to his obligations to prior licensees. The

mark is not an assurance of quality but of the right to control quality, see, El Greco, supra, (holding that goods were not genuine where license to manufacture under mark did not ripen into license to sell under that mark until owner had approved the quality of the goods); compare Sasson Jeans, supra (where owner of mark had forgone right to control quality, goods were genuine because produced under license). See also Ballet Makers, supra, where Judge Lasker said, "the purpose underlying federal trademark law which the 'confusion' standard is designed to effectuate, namely, protecting the public's ability to rely on the trademark as indicative of the source of the goods which in turn is indicative of the goods' quality" (citing In re Polar Music International AB, 714 F.2d 1567, 1571 [Fed.Cir. 1983]). In authorizing a

licensee to use his mark, a trademark owner vouches for the goods; he does not invite speculation as to their quality or their "right" to bear the mark whose use he has authorized. It is his mark; the owner may be circumspect and guard his reputation or he may be promiscuous, but if he is promiscuous he may not simply disavow the license by commencing an action alleging that his trademark has been infringed. See Alfred Dunhill, Ltd. v. Interstate Cigar Co., 499 F.2d 232 (2d Cir. 1974) (trademark owner may not ordinarily complain about goods sold in the United States under his mark whether or not the goods are different from or inferior to those made in this country; Sasson Jeans, supra; and see, Parfums Stern, Inc. v. United States Customs Service, 575 F.Supp. 416 (S.D. Fla. 1983) (single holder of mark world-wide who engages in international

markets may not use the trademark laws to protect himself from undesired competition).

While petitioner does not deny that the Jesmar dolls were different from the Coleco dolls insofar as they contained Spanish-language papers, neither this fact nor the fact that they were not intended for sale in the United States renders Jesmar's dolls ingenuine vis-a-vis the trademark owner, since the dolls were manufactured pursuant to a license issued by the trademark owner and in accordance with the trademark owner's specifications. Indeed, as evidenced by the complaints allegedly received by the Trademark owner in this case, there was no confusion as to the sponsor of the goods, and that is the cause of respondent's alarm. In essence, therefore, the Second Circuit's

decision permits respondent to use the Lanham Act to disavow genuine goods on the basis that the public is disappointed in them. It may well be that respondent is free to establish territorial restrictions on the sale of its goods in international markets. However, to paraphrase the Ninth Circuit in NEC Electronics, the trademark law does not offer respondent a vehicle by which to establish and enforce a worldwide licensing scheme to keep prices and demand for goods artificially high while purporting to control quality.

CONCLUSION

Granada Electronics, Inc.'s petition for a writ of certiorari should be granted.

Dated: New York, New York
July 1, 1987

Respectfully submitted,

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APPENDIX

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

No. 519 -- August Term, 1986

(Argued December 8, 1986
Decided April 7, 1987)

Docket No. 86-7670

Original Appalachian Artworks, Inc.,

Appellee,

v.

Granada Electronics, Inc.,

Appellant.

Before OAKES, CARDAMONE, and WINTER, Circuit Judges.

Appeal from a decision of the United States District Court for the Southern District of New York, William C. Conner, Judge, finding importer and distributor of dolls produced overseas under license with trademark owner and

bearing owner's mark liable for infringement and enjoining further importation of the dolls.

Affirmed. Judge Cardamone concurs in a separate opinion.

Noel W. Hauser, Haas, Greenstein, Hauser, Sims, Cohen & Gerstein, P.C., New York, NY, for Appellant.

Gerard F. Dunne, Wyatt, Gerber, Shoup, Scobey & Badie, New York, NY (Bruce N. Proctor, Eliot S. Gerber, New York, NY; William H. Needle, Atlanta, GA; Stanley F. Birch, Jr., Atlanta, GA, of counsel), for Appellee.

OAKES, Circuit Judge:

This appeal involves a suit by a registered trademark owner in the United States against the importer of so-called "gray goods," here Cabbage Patch Kids dolls, bearing the owner's trademark but manufactured abroad under a restrictive license from the trademark owner. The license restriction defined the territory in which the dolls could be sold, limiting sales essentially to Spain. The Spanish "Kids," although duly bearing the appropriate trademark, nevertheless differ from Kids manufactured in the United States because their "adoption papers" are in Spanish. The United States District Court for the Southern District of New York, William C. Conner, Judge, found that sale of the Spanish dolls in the United States infringed the owner's trademark

and granted a permanent injunction against the importer and distributor of the dolls. Original Appalachian Artworks, Inc. v. Granada Electronics, Inc., 640 F. Supp. 928 (S.D.N.Y. 1986). We affirm.

This action was brought by Original Appalachian Artworks, Inc. (OAA), the Georgia maker and licensor of the well-known Cabbage Patch Kids dolls, against Granada Electronics, Inc. (Granada), who imported and distributed Cabbage Patch Kids dolls in the United States. Granada's dolls were made in Spain by Jesmar, S.A. (Jesmar), under a license from OAA (through a licensing agent) which permitted manufacture and distribution of the dolls in Spain, the Canary Islands, Andorra, and Ceuta Melilla. Under the license Jesmar agreed not to make, sell, or authorize

any sale of the licensed products outside its licensed territory and to sell only to those purchasers who would agree not to use or resell the licensed products outside the licensed territory. The boxes containing the Jesmar dolls bear the "Cabbage Patch Kids" trademark displayed in English on all panels of the box except the bottom. Also printed in English are the words "The World Of" preceding the trademark on the rear panel of the box and the name of OAA and its United States address in small print in the copyright notice. The rest of the wording on the box, however, is in Spanish.

OAA makes hand-sewn soft-sculpture Cabbage Patch Kids dolls in Cleveland, Georgia, and markets them through what it calls "adoption centers" located primarily in specialty stores

and finer department stores. Purchasers of the dolls receive "birth certificates" and "adoption papers" to be filled out by the "parent" or owner of the doll, who takes an "oath of adoption." The adoption papers are returned to OAA, and the information is entered into the OAA computer so that on the first anniversary of the adoption the adopting parent receives a "birthday card" from OAA. Judge Conner found that this adoption process is an "important element of the mystique of the [Cabbage Patch Kids] dolls, which has substantially contributed to their enormous popularity and commercial success." 640 F. Supp. at 930.

Through an intermediary licensing agent, OAA also licenses Coleco Industries, Inc., of Hartford, Connecticut, to manufacture, promote,

and distribute Cabbage Patch Kids dolls within the United States. Unlike the OAA dolls, the Coleco dolls are smaller, with vinyl heads. They are mass-produced, packaged in boxes, and sold at a retail price less than half that of the OAA soft-sculpture dolls. Nevertheless, the Coleco dolls are also accompanied by birth certificates and adoption papers and by English-language instructions suggesting the return of completed adoption papers in a pre-addressed envelope to a processing center in the United States. The instructions also permit a purchaser "legally" to change the name of the doll if desired, and the doll's parent gets a suitable-for-framing birth certificate as well as a birthday card on the first birthday of the doll. Coleco, with tremendous sales, has invested millions of dollars in advertising the dolls during

the last three years and had spent approximately $2.9 million in the first two quarters of 1986. The district court found that, indeed, the Cabbage Patch Kids trademark has become famous and associated with Coleco by virtue of its advertising expenditures and television commercials. 640 F. Supp. at 931.

We note that OAA did cause its trademark to be recorded with the United States Customs Service, the regulations of which require the listing "of each foreign person or business entity authorized or licensed to use the trademark and a statement as to the use authorized." 19 C.F.R. § 133.2(c) (1986). Jesmar was listed on the application for recordation by OAA and pursuant thereto the Customs Service sent its agents a letter authorizing Cabbage Patch Kids dolls made by Jesmar to pass

through Customs. Parenthetically it should be noted that this court recently held that the Customs Service as a matter of "enforcement discretion" and by virtue of inherent "administrative difficulties" may authorize the admission of so-called gray market goods. Olympus Corp. v. United States, 792 F.2d 315, 320 (2d Cir. 1986), petition for cert. filed, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757); accord Vivitar Corp. v. United States, 761 F.2d 1552, 1569-70 (Fed. Cir. 1985), cert. denied 106 S. Ct. 791 (1986). But see Coalition to Preserve the Integrity of American Trademarks v. United States, 790 F.2d 903, 916-17 (D.C. Cir. 1986) (customs regulations allowing importation of gray goods inconsistent with statute governing entry of trademarked goods), cert. granted, 55 U.S.L.W. 3411 (U.S. Dec. 8, 1986) (Nos. 86-495,

86-624, 86-625). It is important to point out, however, that although we held in Olympus that Customs could permit entry of gray market goods, we also indicated that this does not limit the reach of protection of section 526 of the Tariff Act of 1922, as reenacted in 1930 and codified at 19 U.S.C. § 1526 (1982). As we stated, "The markholder still has rights under the statute: he may pursue private remedies against the importer under section 526(c), notwithstanding Customs' failure to exclude the goods." Olympus Corp., 792 F.2d at 320. This is precisely such a case, that is, one in which the markholder is pursuing its private remedies against the importer. Cf. Osawa & Co. v. B & H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984) (granting preliminary injunction in private infringement action against the importation of goods genuinely marked

abroad), cited with approval and disapproval in Olympus Corp., 792 F.2d at 319.

DISCUSSION

As Judge Conner noted below, 640 F. Supp. at 932, OAA's registration of the Cabbage Patch Kids trademark is prima facie evidence of its validity and of OAA's exclusive right to use the trademark, the validity of which has not been challenged here. As he also noted, section 32 of the Lanham Trademark Act of 1946, 15 U.S.C. § 1114(1)(a) (1982), prohibits the unauthorized sale of goods bearing a registered trademark where there is a likelihood of confusion, mistake, or deception of purchasers. See, e.g., Syntex Laboratories, Inc. v. Norwich Pharmacal Co., 437 F.2d 566, 568 (2d Cir. 1971); S. Rep. No. 1333, 79th

Cong., 2d Sess. 1, reprinted in 1946 U.S. Code Cong. Serv. Applying this standard, the district court found that Jesmar's Cabbage Patch Kids dolls with their Spanish-language birth certificates, adoption papers, and instructions are materially different from the Coleco dolls with English-language papers. The court also concluded, on the basis of numerous letters from parents and child doll owners or "parents," that the sale in the United States of the Spanish-language dolls with the prominent English-language trademark causes the public to confuse or mistake the Spanish dolls for the Coleco dolls that they expect to be for sale. Together, these findings led the district court to hold Granada's sale of Jesmar dolls in the United States actionable under 15 U.S.C. § 1114(1)(a). 640 F. Supp. at 933 (citing Bell & Howell: Mamiya Co. v.

Masel Supply Co., 719 F.2d 42 (2d Cir. 1983)).

Granada's principal argument is that the central purpose of a trademark is to identify the owner of the trademark as the source of the goods. Accordingly, the argument runs, the role of trademark laws is to prevent an infringer from passing off its goods as being those of another. There would thus be no infringement here because Jesmar's Cabbage Patch Kids dolls bear a genuine trademark that accurately portrays OAA as the originator, or in this case licensor, of the product. To back this line of reasoning, Granada cites three cases in this circuit as standing for the proposition that the unauthorized sale of authorized goods does not give rise to a claim for trademark infringement. Unfortunately for

Granada, however, we do not find that these cases support its interpretation of the Lanham Act.

For example, in DEP Corp. v. Interstate Cigar Co., 622 F.2d 621 (2d Cir. 1980), this court upheld the dismissal of a Lanham Act claim by a United States distributor of an English soap against a gray goods importer because the distributor had no property interest in the trademark. In dicta the court noted that it would be "anomalous" if the sale of genuine goods could support an infringement action. Id. at 622 n.1. But the court also noted that A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923), appeared to the contrary and, in the end, concluded that it need not reach the issue in the case because the plaintiff had no standing to assert trademark infringement.

Granada also cites El Greco Leather Products Co. v. Shoe World Inc., 599 F. Supp. 1380 (E.D.N.Y. 1984), which found that the trademark owner's rights were not infringed by the unauthorized sale in the United States of trademarked shoes even though the shoes had not been accepted or approved for sale by the owner. But this decision was recently reversed in this court on appeal, El Greco Leather Products Co. v. Shoe World Inc., No. 86-7032 (2d Cir. Dec. 3, 1986), on the ground that while the shoes had been manufactured by agreement with the trademark owner, they were not "genuine" for purposes of trademark infringement because the shoes were sold without being inspected by the owner to insure quality. The unauthorized disposition of the shoes without inspection deprived the owner of the right to control the product and could mislead

consumers into believing that the trademark owner had approved the shoes for sale. Thus, in El Greco we concluded that the owner was entitled to relief under section 1114 of the Lanham Act against the seller of goods that bore the owner's mark but had not been inspected, accepted, or authorized for sale in the United States.

The third case cited by Granada, Sasson Jeans, Inc. v. Sasson Jeans, L.A., Inc., 632 F. Supp. 1525 (S.D.N.Y. 1986), which involved unauthorized sales in the United States of surplus blue jeans manufactured overseas under license, is similarly unsupportive. In Sasson Jeans, the court recognized that the heart of the Lanham Act claim was potential confusion by the consumer as to the origin or source of the goods. 632 F. Supp. at 1527 (citing

Standard & Poor's Corp. v. Commodity Exchange, Inc., 683 F.2d 704, 708 (2d Cir. 1982)). The court ruled that there was no trademark infringement because the jeans were "genuine," that is, their production was authorized by contract, they were labeled with the trademark with the intent that they be sold in the United States, and they were sufficiently similar that they could not give rise to the confusion section 1114 was intended to prevent. See Sasson Jeans, 632 F. Supp. at 1528-29; see also Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp., 707 F.2d 1054, 1058 (9th Cir. 1983) (surplus shirts were "the genuine product, planned and sponsored by Monte Carlo and produced for it on contract for future sale"); Diamond Supply Co. v. Prudential Paper Products Co., 589 F. Supp. 470, 475 (S.D.N.Y. 1984) (paper

products were produced under contract and "identical or qualitatively equivalent"); Ballet Makers, Inc. v. United States Shoe Corp., 633 F. Supp. 1328, 1334-35 (S.D.N.Y. 1986) (subsequent licensee's use of trademark does not infringe prior licensee's rights when goods are "genuine" and owner approved both goods for U.S. distribution).

But as OAA notes and the district court concluded, the present case is distinguishable from the above cases because Jesmar's dolls were not intended to be sold in the United States and, most importantly, were materially different from the Coleco Cabbage Patch Kids dolls sold in the United States. There is a very real difference in the product itself -- the foreign language adoption papers and birth certificate,

coupled with the United States fulfillment houses' inability or unwillingness to process Jesmar's adoption papers or mail adoption certificates and birthday cards to Jesmar doll owners, and the concomitant inability of consumers to "adopt" the dolls. It is this difference that creates the confusion over the source of the product and results in a loss of OAA's and Coleco's good will. Thus, even though the goods do bear OAA's trademark and were manufactured under license with OAA, they are not "genuine" goods because they differ from the Coleco dolls and were not authorized for sale in the United States. This case is therefore closer to Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1171-74 (S.D.N.Y. 1984), in which Judge Leval rejected the principle that a trademark lawfully affixed in one country carried the mark lawfully

wherever it went and found that gray good Mamiya cameras imported into the United States in violation of a Customs Service exclusion order infringed upon the American distributor's trademark. See also Ballet Makers, 633 F. Supp. at 1334 (distinguishing Osawa and A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923) from cases in which the trademark owner had authorized the goods for U.S. distribution). As in Osawa, OAA's domestic good will is being damaged by consumer confusion caused by the importation of the Jesmar dolls.

Admittedly, this case is different from Osawa because it is OAA that owns and controls the trademark on Jesmar Cabbage Patch Kids dolls. Citing Parfums Stern, Inc. v. United States Customs Service, 575 F. Supp. 416, 419-20 (S.D. Fla. 1983), Granada argues

accordingly that there can be no infringement here because OAA cannot be damaged by sales of its own goods. Although this argument has some force in cases where the imported goods are identical to the domestic goods and are intended for sale in the United States, as in Sasson Jeans or Monte Carlo Shirt, for example, in a case such as this where the goods are confusingly different, the argument ignores the fact that section 1114 was intended to prevent any consumer confusion over similar goods. In light of this statutory purpose, the fact that a single entity owns the trademark worldwide is not dispositive.

Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42, 45-46 (2d Cir. 1983), another gray goods case, is also distinguishable from the present

case because it ruled only that a preliminary injunction should be denied when there was an inadequate showing of irreparable injury due to confusion and less drastic interim remedies could be adopted. Here there is a more than adequate showing of confusion over the source of the Cabbage Patch Kids dolls and sufficient evidence of damage to OAA's good will to support the permanent injunction. Cf. Premier Dental Products Co. v. Darby Dental Supply Co., 794 F.2d 850, 859 (3d Cir. 1986) (finding irreparable damage to good will even though gray good was identical to goods sold by trademark owner), cert. denied, 107 S. Ct. 436 (1986).

Granada argues further that OAA consented to the importation of Jesmar dolls. This contention is meritless. Although OAA's filing of the

names of its licensed producers pursuant to Customs regulations, 19 C.F.R. § 133.2 (1986), did allow the goods to pass through Customs, this does not extinguish OAA's rights to claim infringement or seek exclusion, as we have said, in a private suit in federal court. See Olympus Corp. v. United States, 792 F.2d at 320; Vivitar Corp. v. United States, 761 F.2d at 1570. The recordation of the trademark and its concomitant application listing Jesmar as a licensee simply operates to ease Customs' administrative chores, not as authorization to import.

Granada also argues that the court erred in dismissing its antitrust counterclaims. Although Granada recognizes that under Continental T.V., Inc. v. GTE Sylvania Inc., 433 U.S. 36 (1977), territorial restrictions on

product resale do not amount to a per se violation of the Sherman Act, see Olympus Corp., 792 F.2d at 319-20, it nonetheless makes the vague allegation that the "wide disparity in price" here and abroad and the shortgage of Coleco's Cabbage Patch Kids dolls in the United States are suggestive of an antitrust violation. The district court, however, correctly dismissed this counterclaim on the ground that Granada had alleged no antitrust injury that would give it standing to challenge OAA's acts. Indeed, the court found, and we agree, that gray goods importers such as Granada would have benefited from any anticompetitive conduct. Cf. W. Goebel Porzellanfabrik v. Action Industries, Inc., 589 F. Supp. 763, 766 (S.D.N.Y. 1984) (antitrust counterclaim to gray good copyright infringement suit dismissed because importer would have

benefited from high domestic prices). Finally, any claim by Granada that the infringement suit itself is an antitrust violation fails because there is no evidence that the suit was brought in bad faith, to harass, or in any way such that it would not be immune from antitrust strictures under the Noerr-Pennington doctrine. See id. at 767.

Granada's arguments regarding damages are premature and can be heard at the forthcoming damages hearing.

Judgment affirmed.

CARDAMONE, Circuit Judge, Concurring:

The majority states that the imported dolls were not intended to be sold in the United States and were "different" from those of the mark's owner because the adoption papers and birth certificates were in Spanish. It is this difference, the majority continues, that creates confusion over the source of the product and constitutes the Lanham Act violation. I also believe that the importation of the Spanish produced Cabbage Patch dolls infringes the owner's trademark and should be permanently enjoined. While I agree with the majority that there is "confusion over the source of the product," I respectfully reach this conclusion for somewhat different reasons.

I

The essential element of an action under § 32 of the Lanham Act, 15 U.S.C. § 1114 (1982), is a showing of the likelihood of consumer confusion as to source of origin. See, e.g., Church of Scientology Int'l v. The Elmira Mission of the Church of Scientology, 794 F.2d 38, 43 (2d Cir. 1986); Miss Universe, Inc. v. Patricelli, 753 F.2d 235, 237 (2d Cir. 1985); Berlitz Schools of Languages, Inc. v. Everest House, 619 F.2d 211, 215 (2d Cir. 1980); McGregor-Doniger Inc. v. Drizzle Inc., 599 F.2d 1126, 1130 (2d Cir. 1979); Mushroom Makers, Inc. v. R.G. Barry Corp., 580 F.2d 44, 47 (2d Cir. 1978), cert. denied, 439 U.S. 1116 (1979) (per curiam). Because parallel goods are generally considered to be the "genuine" product of the foreign trademark owner,

see, e.g., A. Bourgois & Co. v. Katzel, 260 U.S. 689, 691-92 (1923); 3A R. Callmann Unfair Competition, Trademarks and Monopolies § 21.17, at 74 (L. Altman 4th ed. 1983), the traditional Lanham Act consumer confusion test becomes difficult to apply. Lipner, The Legality of Parallel Imports: Trademark, Antitrust, or Equity?, 19 Tex. Int'l L.J. 553, 568 (1984). Hence, to determine whether the importation of "genuine" Cabbage Patch dolls creates a likelihood of confusion as to their "source", it is necessary to examine the functions and principles of trademark law.

A. Trade Identity Theory

Under the trade identity theory of trademark law, the only function of this body of law is to identify

the ultimate source of the goods, i.e., the owner of the mark. 3A R. Callmann, supra, at 76; 2 S. Ladas, Patents, Trademarks and Related Rights § 732, at 1341 (1975); Takamatsu, Parallel Importation of Trademarked Goods: A Comparative Analysis, 57 Wash. L. Rev. 433, 453 (1982). Where, as here, the domestic owner of the mark has licensed the use of its mark by a foreign manufacturer, this theory logically leads to the conclusion that there can be no confusion as to source. 3A R. Callmann, supra; 2 S. Ladas, supra; Takamatsu, supra, at 457. Hence, it cannot serve as the rationale for granting a Lanham Act injunction.

B. The Guarantee Function

Many commentators however recognize that trademark law also serves

to guarantee the quality of the trademarked product. 3A R. Callmann, supra, at 75; 2 S. Ladas, supra; 1 J. McCarthy, Trademarks and Unfair Competition, § 18.13, at 827 (2d ed. 1984). This is particularly apparent in the licensing context where the mark's owner licenses another to manufacture the product while retaining only the right to control quality. See 1 J. McCarthy, supra, at 826-28. We have labelled that control which the licensor retains "sponsorship," Societe Comptoir De L'Industrie Cotonniere v. Alexander's Dep't Stores, 299 F.2d 33, 35 (2d Cir. 1962), and have deemed confusion as to "sponsorship" to be confusion as to "source of origin." Id.

Recognizing that sponsorship includes quality control -- and viewing the territorial sales restrictions

imposed by OAA as a means of quality control -- it follows that Granada's importation of dolls with Spanish birth certificates, adoption papers and instructions into the United States may confuse the public as to whether OAA "sponsored" the importation of what the public perceives to be inferior dolls. This confusion is sufficient to constitute a violation of the Lanham Act. See Takamatsu, supra, 457-58 (acceptance of the guarantee function leads to the conclusion that the importation of goods of different quality is trademark infringement, even where domestic and foreign marks are owned by the same person); 2 S. Ladas, supra (same). See also 4A Callmann, supra, § 26.27, at 63-64 ("Here . . . we may have some other form of confusion, involving for example the guarantee function of trademarks rather than the source-

identification function.") (footnotes omitted).

The necessity of providing a remedy against quality infringement by third-parties is particularly essential in a licensing arrangement because the Lanham Act imposes an affirmative duty upon the licensor to maintain quality control. See Church of Scientology, 794 F.2d at 43; Franchised Stores of New York, Inc. v. Winter, 394 F.2d 664, 669 (2d Cir. 1968). As we noted in Franchised Stores, "[i]t would be anomalous . . . to burden the trademark owner with this 'affirmative' duty and then . . . deny him a federal forum in which to control his licensees." 394 F.2d at 669.

Even the guarantee function, in my view, is not entirely free from doubt as a basis for issuing an injunc-

tion. It has been argued that the importation of genuine but inferior goods of a foreign licensee is the fault of the trademark owner "in not exercising adequate supervision of the mark," and that its failure "should not be a justification for protecting it under the trademark laws for the situation it has created." See Vandenburgh, The Problem of Importation of Genuinely Marked Goods is Not a Trademark Problem, 49 Trade Mark Rptr. 707, 716 (1959) (emphasis in original). See also Parfums Stern, Inc. v. United States Customs Service, 575 F. Supp. 416, 419 (S.D. Fla. 1983) (Criticizing mark owner for seeking federal trademark protection "to insulate itself from what it placed in motion itself through its own foreign manufacturing and distribution sources.").

This argument is not persuasive when, as in this case, it is not clear that OAA could not have prevented by contract the importation of these Cabbage Patch dolls by third-party distributors, such as Granada. As a practical matter OAA appears to have tried. Under its license Jesmar agreed not to sell outside its Spanish-licensed territory, and further agreed to sell only to purchasers who also agreed not to sell outside that territory. Without any effective means of further controlling the distribution of its product, for example, by means of an equitable servitude on the dolls, OAA should not be held responsible for the dolls' importation. See, e.g., 2 R. Callmann, supra, § 16.16 at 83 ("[Equitable] servitudes have not been the basis of any holding barring parallel imports of genuine trademarked goods"); Z. Chafee,

The Music Goes Round and Round: Equitable Servitudes and Chattels, 69 Harv. L. Rev. 1250, 1255-56 (1956) (only scarce authority on the validity of equitable servitudes on chattels). Significantly, the only other situation in which trademark laws have been used against admittedly "genuine" goods arose when the U.S. owner of the mark did not have a contract remedy available to prevent the importation of the foreign product. See A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923).

C. The Exhaustion Doctrine

Several commentators have suggested that the trademark doctrine of "exhaustion" also cuts against a finding of infringement in the importation of parallel goods. See, e.g., 3A R. Callmann, supra, § 21.17, at 75.

Simply put, this doctrine provides that a distributor, like Granada, has the "right to resell a branded item in an unchanged state." 2 J. McCarthy, supra, § 25.11, at 261. See also Takamatsu, supra, at 456. The rationale underlying this doctrine is that trademark rights are exhausted once the trademarked goods have been duly placed into the market. Takamatsu, supra. But it is well-recognized that the exhaustion doctrine does not apply to genuine goods which have been altered. See 2 J. McCarthy, supra, § 25.10 at 259.

Here, because the dolls were manufactured and sold by Jesmar as authorized and licensed by OAA and not physically altered thereafter, it might be argued that Granada should be able to resell them in this unaltered state. The more persuasive view, I believe, is

that the "exhaustion" doctrine does not apply with equal force in the international context. See 2 S. Ladas, supra, § 732, at 1341, Takamatsu, supra, at 457. Here the same mark has been attached to essentially two different products in the two countries, and each product has developed its own good-will in its country. Although the Spanish dolls have not been physically altered during their importation, the sale of these dolls in the U.S. upsets the settled expectations of U.S. consumers about what they will receive when they purchase a Cabbage Patch doll. Because an American consumer would be disappointed by the same doll that would satisfy a Spanish consumer, the very act of importing goods may be viewed, in an abstract sense, as an alteration of the doll.

II

In sum, the district court properly granted OAA the injunctive relief it requested. Once one adopts the guarantee function of trademark law, it becomes clear that OAA has a right to relief from potential consumer confusion as to whether it sponsored the importation of these genuine but "inferior" dolls. It is this violation of the mark owner's right to control the quality of its product, that is to say its sponsorship, that is deemed confusion as to source.

For these reasons, I conclude that Granada's importation of the Jesmar dolls creates the likelihood of consumer confusion as to source of origin and thus constitutes a violation of the Lanham Act. Consequently, I join the majority in voting to affirm the

district court's issuance of an injunction to prevent further importation.

Opinion and Order of the District Court

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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85 Civ. 9064
(WCC)

ORIGINAL APPALACHIAN ARTWORKS, INC.,

Plaintiff,

- against -

GRANADA ELECTRONICS, INC.,

Defendant.

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CONNER, D. J.:

This action raises again the always troublesome issue whether the owner of a registered U.S. trademark can prevent the sale in this country of imported "grey goods" bearing the trademark which are manufactured abroad under license from the owner. The Court concludes that, at least in the particular circumstances of this case, where the foreign license is territorially restricted and the foreign-made goods are materially different from the U.S.-made goods, the question must be answered affirmatively.

The action was brought by Original Appalachian Artworks, Inc. ("OAA"), the original source and licensor of the well-known CABBAGE PATCH KIDS ("CPK") dolls, against Granada Electronics, Inc. ("Granada"), a United

States importer and distributor of CPK dolls made in Spain by Jesmar, S.A. ("Jesmar") under license from OAA. The action originally charged not only infringement of OAA's U.S.-registered trademark CABBAGE PATCH KIDS but also infringement of OAA's U.S.-registered copyright on the design of the dolls. However, at the trial, the copyright claim was voluntarily dismissed with prejudice.

Following a two-day non-jury trial on the trademark claim, the Court makes the following findings of fact and conclusions of law, pursuant to Rule 52(a), Fed. R. Civ. P.

Findings of Fact

OAA is a corporation of the State of Georgia with its principal place of business in Cleveland, Georgia.

Granada is a corporation of the State of New York having its principal place of business in Brooklyn. OAA is engaged in the manufacture and sale of soft-sculpture dolls under the trademark CABBAGE PATCH KIDS. OAA is also engaged in licensing, the manufacture and sale of CPK dolls and related items by others under its trademark and copyright.

OAA's own soft-sculpture CPK dolls are completely hand-sewn in Cleveland, Georgia by OAA and are sold at retail for a price in excess of $100. OAA markets these CPK dolls through what it calls "adoption centers," which are primarily specialty stores and finer department stores. OAA has approximately 450 of these outlets around the United States. In addition, OAA has two retail stores of its own where it offers for "adoption," or sale, its CPK dolls.

With each "adoption," or purchase, of a CPK doll, the purchaser receives a "birth certificate" and "adoption papers" to be filled out by or for the "parent," or owner, of the doll, who takes an "oath of adoption." A copy of the executed adoption papers is returned to OAA and the relevant information thereon is entered in OAA's computer. On the first anniversary of the "adoption," the "adopting parent" receives a "birthday card" from OAA. This "adoption" process is an important element of the mystique of the CPK dolls, which has substantially contributed to their enormous popularity and commercial success.

On March 1, 1982, OAA entered into an agreement with Schlaifer Nance and Company, Inc. ("SNC") whereby SNC was engaged to act as OAA's exclusive

agent to license the CPK rights to others. On August 8, 1982, OAA, through SNC, granted a license to Coleco Industries, Inc. ("Coleco") of Hartford, Connecticut to manufacture, promote and distribute copies of plaintiff's CPK dolls within the United States. CPK dolls marketed by Coleco are a smaller version of OAA's soft-sculpture CPK dolls. However, instead of being entirely hand-sewn from fabric like the OAA dolls, those of Coleco are mass-produced with vinyl heads and are packaged in boxes which prominently feature the CABBAGE PATCH KIDS trade-mark, and set forth the CPK "legend,"[1] while the original dolls of OAA are unpackaged. The Coleco CPK dolls normally retail at a price of $35 to $45.

The Coleco CPK dolls, like those of OAA, are accompanied by birth certificates and adoption papers which prominently display the CABBAGE PATCH KIDS trademark. These dolls are also accompanied by English-language instructions directing the purchaser to return the completed adoption papers in a pre-addressed envelope to a processing center in the United States. These instructions also describe the procedure for "legally" changing the name of the doll if desired. To process the adoption papers, Coleco engages the services of "fulfillment houses" which are compensated on a per-piece basis. Upon receipt of the adoption papers, the fulfillment house sends the "adopting parent" a suitable-for-framing birth certificate as well as a birthday card on the first "birthday" of the doll.

Coleco was initially given worldwide rights for manufacture and distribution of CPK dolls and related articles, but subsequently relinquished its worldwide rights. Thereafter, OAA, through its exclusive licensing agent SNC, licensed other companies outside the United States to manufacture and sell, in specified areas outside the United States, the vinyl-headed smaller version of the CPK doll similar to that sold by Coleco. On April 13, 1984, SNC licensed Jesmar to manufacture and distribute this version of the CPK doll in Spain, the Canary Islands, Andorra and Ceuta Melilla. Like other foreign licensees, Jesmar agreed not to make, sell or authorize any sale of the licensed products outside its licensed territory. Jesmar further agreed that it would sell or distribute licensed products only with an express agreement

that the purchaser will not use or resell the licensed products outside the licensed territory.

The CPK dolls made by Jesmar come in boxes on which the "legend" of the CPK dolls, and most of the other wording, is printed entirely in the Spanish language. However, the CABBAGE PATCH KIDS trademark is prominently displayed in English on all panels of the box except the bottom. Also printed in English are the words "The World of" which immediately precede the trademark CABBAGE PATCH KIDS on the rear panel of the box, and the name Original Appalachian Artworks, Inc. and its address, Cleveland, Georgia, U.S.A. which appear in small print in the copyright notice.

The Jesmar dolls are sold with birth certificates and adoption papers

which are completely in the Spanish language, as are the instructions for completing the "adoption" and obtaining a change of name. The mailing address to which the adoption papers are directed to be sent is located in Spain.

OAA received Trademark Registration No. 1,298,970 from the United States Patent and Trademark Office on October 2, 1984 for the trademark CABBAGE PATCH KIDS for dolls. Thereafter, OAA caused Trademark Registration No. 1,298,970 for CABBAGE PATCH KIDS for dolls to be recorded with the United States Customs Service. As directed by the regulations of the United States Customs Service, 19 C.F.R. §§ 133.2(c), 133.21-.24 (1985), OAA's application for recordation with Customs included, inter alia, "[t]he name and principal business address of each

foreign person or business entity authorized or licensed to use the trademark and a statement as to the use authorized." Accordingly, Jesmar was listed on the application for Customs recordation by OAA. Consequently, the Customs Service sent a letter to its officials authorizing CPK dolls made by Jesmar to pass through Customs, as the Customs Service regulations do not provide for halting the importation of goods which were made abroad under license granted by the recording party.

OAA has, or has had, at least 120 licenses for various CPK products, with Coleco's vinyl-headed version of the CPK doll being the centerpiece of this licensing program. Coleco has enjoyed spectacular commercial success with its version of the CPK doll, with sales of over 37 million of such dolls.

Coleco spent $1,800,000 in advertising its CPK dolls in 1983, approximately $5,000,000 in 1985 and approximately $2,900,000 in the first two quarters of 1986, for a total of approximately $9,700,000 on CPK dolls alone. Coleco's advertising for the entire CPK product line through 1985 totals $38,800,000 and Coleco plans to spend approximately $20,000,000 more in advertising for the line in 1986.

Coleco has produced a number of television commercials advertising its CPK dolls, which highlight the "adoption" process, and these commercials have been extensively broadcast throughout the United States. By virtue of Coleco's large advertising expenditures for its version of the CPK doll and related products and its substantial sales, the CABBAGE PATCH KIDS trademark

has become famous and associated with Coleco as the source for its version of the CPK dolls in the United States.

In December 1986 OAA and Coleco became aware that the vinyl-headed CPK dolls manufactured by Jesmar and similar CPK dolls of other foreign licensees were being sold in the United States. OAA and Coleco each received numerous letters from United States purchasers of these foreign CPK dolls, including those of Jesmar, expressing disappointment that they had received birth certificates and adoption papers which were not in English and which they could not understand.

In addition, beginning in December 1984, Coleco received an average of 12 to 15 telephone calls a day complaining about CPK dolls with foreign language birth certificates and

adoption papers. Approximately 40% of these calls concerned Jesmar's Spanish-made CPK dolls.

Purchasers have come to expect that dolls sold in the United States bearing the trademark CABBAGE PATCH KIDS will include birth certificates and adoption papers in the English langugage which can be mailed to an addressee in the United States, who will process the adoption papers and return them to the "parent." Jesmar dolls imported into and sold in the United States under the trademark CABBAGE PATCH KIDS by Granada will likely cause confusion, mistake and deception on the part of the purchasing public because these dolls with Spanish language adoption papers and birth certificates are not the product those purchasers expect to receive when they purchase a CPK doll in the United

States. Consumers are therefore being misled and disappointed and frequently hold OAA and/or Coleco responsible therefor. The sale of these non-conforming CPK dolls in the United States therefore has damaged and threatens to continue to damage the reputation of OAA and Coleco as sources of high quality CPK products.

To combat the problem of the sale of non-conforming foreign CPK dolls in the United States, OAA's exclusive licensing agent, SNC, sent both a letter and a telex message to each of its foreign licensees for the vinyl-headed CABBAGE PATCH KIDS dolls, including Jesmar, reminding them that said licensees were contractually obligated not to sell foreign-made CPK dolls out of their licensed territories. Further, OAA filed at least 24 lawsuits in the United

States against distributors and importers of the foreign-made CPK dolls.

The CPK dolls manufactured in Spain by OAA's licensee, Jesmar, were imported into the United States by Granada, who resold the dolls through jobbers and retail chains. These dolls bore the trademark CABBAGE PATCH KIDS prominently printed in English on the package.

Granada had no communications with agents of OAA, SNC, or with Coleco regarding its importation of foreign-made CPK dolls into the United States and thus had no authorization from OAA, Coleco or SNC for such importation or sale.

Granada introduced evidence intended to establish that the retail price of foreign-made CPK dolls in the

United States was substantially lower than that of the Coleco CPK dolls. Granada also introduced evidence that Granada had unsuccessfully attempted to purchase CPK dolls directly from Coleco. OAA introduced opposing evidence on both points. However, the Court need not resolve the conflict because trademark infringement is not excused by either the high price or the scarcity of the genuine product.

Conclusions of Law

OAA's registration of the trademark CABBAGE PATCH KIDS for dolls is prima facie evidence of the validity of that registration and of OAA's exclusive right to use the CABBAGE PATCH KIDS trademark. Nature's Bounty, Inc. v. SuperX Drugs Corp., 490 F. Supp. 50, 53-54 (E.D.N.Y. 1980). Granada has not

challenged the validity of the registration nor OAA's rights in the trademark.

The Lanham Trademark Act of 1946, 15 U.S.C. § 1114(1)(a), prohibits the unauthorized sale of goods bearing a registered trademark where there is a likelihood of confusion, mistake or deception of purchasers. Syntex Laboratories, Inc. v. Norwich Pharmacal Co., 437 F.2d 566, 568 (2d Cir. 1971).

The report of the Senate Committee on Patents respecting the bill which became the Lanham Act described its objective as follows:

> The purpose underlying any trade-mark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and

> money in presenting to the public the product, he is protected in his investment.

S. Rep. No. 1333, 79th Cong., 2d Sess. 1, reprinted in 1946 U.S. Code Cong. & Ad. News 1274, 1274. Thus, the purchasing public is an unnamed party in every action for trademark infringement.

The public to be protected consists not of sophisticated buyers who make careful decisions but hypothetical "average" purchasers.

> The law is not made for the protection of experts, but for the public -- that vast multitude which includes the ignorant, the unthinking and the credulous, who, in making purchases, do not stop to analyze, but are governed by appearances and general impressions.

Florence Mfg. Co. v. J.C. Dowd & Co., 178 F. 73, 75 (2d Cir. 1910); see also

Stork Restaurant v. Sahati, 166 F.2d 348, 359 (9th Cir. 1948).

The Jesmar CPK dolls with foreign language birth certificates, adoption papers and instructions are materially different from the Coleco CPK dolls with English language papers. The sale in the United States of the Jesmar dolls with the CABBAGE PATCH KIDS trademark prominently displayed in English on the package causes the public to confuse or mistake the Jesmar dolls for the Coleco dolls with English-language papers which they expect to be on sale in this country.

OAA has amply demonstrated that purchasers are confused as to the source of the Spanish-made CPK dolls and that the sale of such dolls in the United States with Spanish language birth certificates and adoption papers

has injured the reputation and good will of OAA and its licensee Coleco. Granada's sale of the Jesmar CPK dolls in the United States is therefore actionable under 15 U.S.C. §1114(1)(a). Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42 (2d Cir. 1983).

While OAA's listing of Jesmar on its application for recordation of the trademark CABBAGE PATCH KIDS with the United States Customs Service pursuant to 19 C.F.R. §§ 133.2(c), 133.21-.24 (1985), permits the trademarked dolls made by Jesmar to pass through customs, it does not extinguish OAA's right to protection against unauthorized sale of the imported dolls in the United States. Vivitar Corp. v. United States, 761 F.2d 1552, 1570 (Fed. Cir. 1985) cert. denied, 106 S. Ct. 791 (1986); Olympus Corp. v. United States,

No. 85-6282, slip op. at 3974 (2d Cir. June 9, 1986) (to be reported at 792 F.2d 315).

A trademark owner may not ordinarily complain about goods sold in the United States under his mark when the trademark was applied with authorization that the goods be sold in the United States, whether or not the goods are different from or inferior to those made in this country. Alfred Dunhill, Ltd. v. Interstate Cigar Co., Inc., 499 F.2d 232 (2d Cir. 1974); Sasson Jeans, Inc. v. Sasson Jeans, L.A., Inc., 632 F. Supp. 1525, 1528-29 (S.D.N.Y. 1986); El Greco Leather Prods. Co., Inc. v. Shoe World Inc., 599 F. Supp. 1380, 1394 (E.D.N.Y. 1984). However, in this case the use of the trademark CABBAGE PATCH KIDS on foreign-made goods was authorized only for goods to be sold in

specified areas outside of the United States, and with the licensee's express commitment that they will not be sold outside the specified areas. In these circumstances, the Court concludes that OAA has not contractually relinquished its right to protection against the sale of the non-conforming foreign-made products in this country and that the public's interest requires such protection.

Granada's argument that OAA can readily protect the public merely by supplying English-language papers to the purchasers of the Jesmar dolls is not persuasive. A U.S. trademark owner is under no legal or even moral obligation to supply what an infringer has misled its customers to expect.

Granada will be permanently enjoined from further importation of the

Jesmar dolls and other CPK dolls made abroad under similar territorially restricted licenses. Counsel will be notified in due course of a conference to set a trial on the issue of damages for past infringement.

SO ORDERED.

/s/ William C. Conner
United States District Judge

Dated: New York, New York
July 23, 1986

FOOTNOTE

1. "The Legend of the Cabbage Patch Kids" is that many years ago a young boy named Xavier happened upon an enchanted cabbage patch where he found very special little people who called themselves Cabbage Patch Kids. To help fulfill the Cabbage Patch Kids' dream of having familes with whom to share their love, Xavier set about building a special place known as Babyland General, where the Cabbage Patch Kids remain until each is chosen for adoption.

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

CIVIL ACTION NO.
85 CIV. 9064 (WCC)

ORIGINAL APPALACHIAN ARTWORKS, INC.,

Plaintiff,

-v-

GRANADA ELECTRONICS, INC.,

Defendant.

PERMANENT INJUNCTION ORDER

After due consideration of the issues in this litigation including the testimony of the witnesses at the two day bench trial held on June 30 and July 1, 1986, and the exhibits and briefs of the parties, and the Court

having rendered a fifteen page decision, dated July 23, 1986, permanently enjoining defendant from the importation of CABBAGE PATCH KIDS® dolls intended for distribution outside the United States only, with the damages due plaintiff to be tried at a later date;

IT IS HEREBY ORDERED, ADJUDGED AND DECREED: that pursuant to Rule 65 of the Federal Rules of Civil Procedure the defendant, Granada Electronics, Inc., its officers, agents, servants, employees and all persons in active concert or participation with them are hereby permanently enjoined from:

Any importation, sale, offering for sale or distribution within the United States of CABBAGE PATCH KIDS® dolls manufactured or distributed by Jesmar, S. A. of Spain or of any other CABBAGE PATCH KIDS® dolls with foreign-

language adoption papers manufactured or distributed outside of the United States under a territorially restricted license from plaintiff, Original Appalachian Artworks, Inc.

Dated: New York, New York
July 31, 1986

/s/ William C. Conner
United States District Court